

October 28, 2013

Mr. Harley Blackburn, Vice-President
Journeyman Group
7701 North Lamar Boulevard, Suite 100
Austin, TX 78752

Dear Harley:

Following the developer interviews last week, the Judge Doyle Square Staff Team has begun to analyze the two proposals the City received for the project. The purpose of this work is to provide a report to the Judge Doyle Square Committee to assist it with its charge to recommend a developer for the Judge Doyle Square project to the City Council.

We have initiated this review by focusing primarily on the financial plans sections of the RFP responses. There may be additional questions/issues that arise in the other sections later in the process.

1. The main reason for undertaking this project is to achieve the room block for Monona Terrace. This provision is absolutely critical and the Committee, as an important condition in moving forward, needs to understand your willingness to agree to the room block commitment provisions as outlined in the attachment to this letter. In your response, state your position and any issues you have with the proposed terms of the room block commitment.
2. Your equity contribution to the project is a fundamental consideration for the City. Based on an initial analysis, the net amount of investor equity cannot be readily determined. Are the developer fees being contributed or is all the equity in the form of cash or cash equivalent? Provide more detail on the specific sources and amounts of equity proposed to be provided, the source and type of tax credits to be sought for the project, and the developer fees that will be collected from the project. Each of these elements (equity, tax credits, developer fees) should be allocated to each specific portion of the project (hotel, commercial, residential, retail).
3. Explain the reason for the city lease of hotel meeting space rather than providing more investor equity.
4. Explain the assumptions supporting the estimated property taxes for the hotel and other discrete elements of the project.
5. Please explain the allocation of parking costs between the private uses and the Madison Parking Utility.

We need a written response (via e-mail) from you by **Friday, November 8, 2013 at Noon**. This will enable the Staff Team to complete its work for the Judge Doyle Square Committee by the Committee's meeting on November 18, 2013. If you would like to discuss these issues further with representatives of the Staff Team, we can arrange for a conference call with you. Thank you for your prompt attention to this request.

Sincerely,


George E. Austin, Judge Doyle Square Project Director

Room Block Commitment Agreement (RBC) Terms

- 1) The required room block commitment is defined in the table below.

Required Room Block Days

Booking Period (the number of months the event is to occur after the date of a room block request)	Hold Period (the number of days the room block offer must in effect)	Commitment Days (the number of days room blocks are committed in any given year)	Room Block Size (the maximum number rooms the hotel may be required to commit on any given day)
12-17	60 days	123 (35% of 365)	150
18-23	200 days	219 (60% of 365)	200
24-36	400 days	237 (65% of 365)	250
37+	500 days	274 (75% of 365)	275

- 2) The RBC will define a competitive set of four to six hotel properties in Madison that participate in providing room blocks for Monona Terrace events. At a minimum these properties would include the Hilton, Sheraton, Hyatt Place, DoubleTree, and Madison Concourse Hotel.
- 3) Permitted room block rates offered to potential convention center customers will be indexed to the average daily room rate (ADR) of the competitive set for the most recent calendar year. For example, permitted room block rates may not exceed 125% of the ADR of the competitive set. The index will be negotiated based on pro forma assumptions regarding the group rate in the proposed hotel and the ADR of the competitive set. The permitted rates will be adjusted by seasonal patterns of ADR levels.
- 4) Permitted room block rates will be allowed to escalate from the time of commitment to the date of the event by the lesser of 5% per year or the annual rate of growth in the average daily room rate of the competitive set.
- 5) The hotel operator would have the right to refuse groups based on clearly documented evidence of poor payment history or a history of damaging property.
- 6) The agreement will establish protocols and time frames for the hotel manager's response to room block commitment requests.
- 7) Rooms reserved under a room block commitment will remain available to customers until the 30th day prior to the first scheduled day of the event.
- 8) The room block agreement will allow of the proportional adjustment of the required room block size during periodic renovations of the hotel which would reduce the number of available rooms.
- 9) The developer will be required to implement the RBC through the selected hotel operator.



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Mr. George E. Austin, Judge Doyle Square Project Director
Room LL-100, Madison Municipal Building
215 Martin Luther King Jr. Blvd. Madison, WI 53703-3346

Re: Judge Doyle Square – Response to 10-28-13 JDS Staff Team Questions/Issues
Madison, WI

Dear Mr. Austin:

In response to the questions/issues of your October 28, 2013 correspondence we offer the following:

- 1. The main reason for undertaking this project is to achieve the room block for Monona Terrace. This provision is absolutely critical and the Committee, as an important condition in moving forward, needs to understand your willingness to agree to the room block commitment provisions as outlined in the attachment to this letter. In your response, state your position and any issues you have with the proposed terms of the room block commitment.**

Journeyman has understood from Day one of our pursuit of this opportunity that a Room Block for Monona Terrace is critical. A considerable amount of our principal's hospitality experience has been on Convention Center Hotels including those in Austin, TX; Omaha, NE; Vancouver, WA; Denver, CO; Lawton, OK, and others; all of which had similar room block commitment terms somewhat similar to those proposed. We fully expect to negotiate a room block agreement to satisfy the needs of Madison to support Monona Terrace but do have some comments and positions on some of the proposed terms as outlined below.

- The Marriott will be a first class full service hotel anchoring the Monona Convention Center as defined by the RFQ and RFP. A full service first class hotel will run a significantly higher ADR than what is defined in the proposed terms since this includes select service hotels and hotels outside of the downtown market.
- Restricting the ADR at the Marriott will have a negative impact on the overall market performance. The goal is to maximize rate to lift the rate quoted by other hotels within the market and comp set.
- Competitive rate set for Marriott as compared to other destinations, market room availability and rate quotes for hotels included in the convention bidding process will set the rate benchmark for the Marriott without an imposed rate cap.
- Citywide convention business will usually generate a rate premium to the overall ADR generated based on compression. ADR blends in all market segments and based on the mix, product type and hotel quality level and sales strategy. Capping the ADR could provide competitive hotels with either a competitive advantage to not participate in the convention block to book higher rated transient and local corporate business or they could lose potential business since the block will stay at the lowest rate offered, which could be the Marriott.
- We are unaware of any convention hotels in the country that have an ADR restriction / cap.

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2. Your equity contribution to the project is a fundamental consideration for the City. Based on an initial analysis, the net amount of investor equity cannot be readily determined. Are the developer fees being contributed or is all the equity in the form of cash or cash equivalent? Provide more detail on the specific sources and amounts of equity proposed to be provided, the source and type of tax credits to be sought for the project, and the developer fees that will be collected from the project. Each of these elements (equity, tax credits, developer fees) should be allocated to each specific portion of the project (hotel, commercial, residential, retail).

Specific equity contribution amounts were reflected for each specific portion of the Project in Table A of the Chapter 14 "Sealed Submission" and as noted exceeds \$8 million in cash equity. The Sources of this Table A are below with the net amounts of investor equity reflected. At this time Developer Fees are not being contributed as equity but given that Journeyman provides a Guaranteed Fixed Price (GFP) guarantees to investors it is not uncommon for such Fees to become equity or other contributions. It is currently anticipated that equity for each project element will come from Journeyman/Marcus for the Hotel (\$4.3M), Journeyman/LZ for the Retail/Office (\$0.92M), and LZ for the Residential (\$2.7M).

Projected net proceeds from New Market Tax Credits are reflected in our capital stack, which are based on CDE allocations of \$20M for the Hotel and \$3.5M for the Retail/Office as reflected in Table A of Chapter 14 as shown.

	BLOCK 88		BLOCK 105				Project Totals							
	Marriott Hotel	City Fleet Parking	Retail/Office	Residential	Bicycle Center	City Garage								
Net Area (Conditioned)	282,100 SF	0 SF	63,870 SF	164,576 SF	3,000 SF	0 SF	513,546 SF							
Garage Area	92,547 SF	15,753 SF	67,200 SF	70,350 SF	3,150 SF	209,668 SF	458,668 SF							
Gross Square Feet	374,647 SF	15,753 SF	131,070 SF	234,926 SF	6,150 SF	209,668 SF	972,214 SF							
Parking	235 Spcs	40 Spcs	192 Spcs	201 Spcs	9 Spcs	598 Spcs	1,275 Spcs							
Unit	352 Keys	40 Spcs	63,870 SF	134 Units	3,000 SF	598 Spcs								
Sources														
First Mortgage	\$ 50,315,708	52.3%	\$ -	0.0%	\$ 14,309,939	75.0%	\$ 24,479,992	75.0%	\$ -	0.0%	\$ -	0.0%	\$ 89,105,639	49.8%
Parking Utility Reserve	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%	\$ 9,000,000	32.3%	\$ 9,000,000	32.3%	\$ 9,000,000	5.0%
City Bonds (Parking)	\$ -	0.0%	\$ 2,005,158	100%	\$ -	0.0%	\$ -	0.0%	\$ 951,300	100.0%	\$ 18,878,909	67.7%	\$ 21,835,367	12.2%
TIF Loan	\$ 38,135,725	39.6%	\$ -	0.0%	\$ 3,229,759	16.9%	\$ 5,371,415	16.5%	\$ -	0.0%	\$ -	0.0%	\$ 46,736,899	26.1%
New Market Tax Credits	\$ 3,523,280	3.7%	\$ -	0.0%	\$ 616,574	3.2%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%	\$ 4,139,854	2.3%
Sponsor/Investor Equity	\$ 4,310,879	4.5%	\$ -	0.0%	\$ 923,647	4.8%	\$ 2,788,582	8.5%	\$ -	0.0%	\$ -	0.0%	\$ 8,023,108	4.5%
Total Sources	\$ 96,285,592	100%	\$ 2,005,158	100%	\$ 19,079,919	100%	\$ 32,639,989	100%	\$ 951,300	100%	\$ 27,878,909	100%	\$ 178,840,868	100%

In the event the new market tax credit amounts are short, Developer will fund additional capital or allocate its fees to meet the shortfall.

3. Explain the reason for the city lease of hotel meeting space rather than providing more investor equity.

The proposed City lease of hotel meeting space is reflected in our proposal to achieve levels of financial performance to attract the levels of debt and private equity identified for the hotel. The lenders require that adequate debt service coverage be ascertained prior to stabilization and after stabilization. The same structure was used in our Lawton, Oklahoma project successfully. In fact, in Lawton, the lease payment was equal to 100% of the hotel sales/occupancy taxes. In this transaction, we have structured the lease payment to be less than 50% of the hotel occupancy/sales taxes to be received by the City. In addition, to attract equity, we have to guarantee certain minimum returns and we will not be able to do such without this lease payment.

4. Explain the assumptions supporting the estimated property taxes for the hotel and other



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discrete elements of the project.

The assumptions we used in estimating property taxes for the hotel and other discrete elements of the project were using our construction value ("replacement value") and multiplying that by 0.87 to arrive at an estimated assessed or taxable value. Tax values on the land were based on an allocation from each project elements share of the gross square feet of improvements on each block time \$100 per square foot. For all tax amounts a Mil Rate of 0.0242 was applied.

TAX INCREMENT FINANCING					
	<u>Marriott Hotel</u>	<u>Retail/Office</u>	<u>Residential</u>	<u>Totals</u>	
Land	\$ 4,345,824	\$ 1,179,447	\$ 2,114,006	\$ 7,639,278	
Improvement	\$ 63,456,173	\$ 13,649,567	\$ 22,548,139	\$ 99,653,879	
Real Estate Assessment	\$ 67,801,997	\$ 14,829,014	\$ 24,662,146	\$107,293,157	
Mil Rate	0.0242	0.0242	0.0242	0.0242	
Real Estate Taxes	\$ 1,640,808	\$ 358,862	\$ 596,824	\$ 2,596,494	
Interest	0.00%	0.00%	0.00%		
Amort - Yrs	20	20	20	20	
Supportable TIF Bond	\$ 32,816,167	\$ 7,177,243	\$ 11,936,478	\$ 51,929,888	(\$2,734,680.56)
Discount	90.00%	90.00%	90.00%	90.00%	
TIF Proceeds to Block 105		\$ 3,229,759	\$ 5,371,415	\$ 8,601,175	
TIF Proceeds to Block 88 Hotel	\$ 29,534,550	\$ 3,229,759	\$ 5,371,415	\$ 38,135,725	\$ 46,736,899
	\$ 29,534,550	\$ 6,459,518	\$ 10,742,831	\$ 46,736,899	

5. Please explain the allocation of parking costs between the private uses and the Madison Parking Utility

Our allocation of parking costs between the private uses and the Madison Parking Utility are initially based on both a gross square foot (GSF) allocation along with specific allocation for each project portion. We believe this approach results in a fair distribution of costs without a consequence to a specific project portion due to location. For example, structural costs including that for garage excavation and building foundations, are distributed based on the project portions share of GSF; whereas other costs such as exterior cladding on the retail/office and residential above grade exteriors are not shared.

Should you require any further information or clarification to the above please give us a call.

Respectfully Submitted,

Journeyman Group



Harley Blackburn
Vice President